

Unit 10: Financial Accounting

Unit code A/508/0496

Unit level 4

Credit value 15

Introduction

Balancing the books is at the heart of all business management. The overall aim of this unit is to introduce students to essential financial accounting principles and techniques which will enable them to record and prepare basic final accounts. Students will learn how to prepare accounts for sole traders and partnerships as well as limited companies.

On successful completion of this unit students will be able to contribute effectively to the accounting function of an organisation, or to understand how to record and prepare basic financial accounts for their own business. They will have the knowledge and skills required to progress to a higher level of study.

Learning Outcomes

By the end of this unit a student will be able to:

- 1 Record business transactions using double entry book-keeping, and be able to extract a trial balance.
- 2 Prepare final accounts for sole-traders, partnerships and limited companies in accordance with appropriate principles, conventions and standards.
- 3 Perform bank reconciliations to ensure company and bank records are correct.
- 4 Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts.

Essential Content

LO1 Record business transactions using double entry book-keeping, and be able to extract a trial balance

Business transactions:

Giving consideration to the types of business transactions (sales, purchases, receipts and payments) and the regulations which apply to financial accounting.

Double entry book-keeping:

Double entry recording in sales, purchases and cash book before posting to the ledger accounts.

Manual and electronic systems will be introduced and how, why and when these are used.

Effectively recording debits and credits; regulations that apply to financial accounting.

Trial balance:

Understanding how the trial balance is produced and its role in the identification and rectification of errors; the components of a trial balance and their importance will be considered.

LO2 Prepare final accounts for sole-traders, partnerships and limited companies in accordance with appropriate principles, conventions and standards

Financial reports and financial statements:

What is the difference between the two?

How, why and when are each one produced?

Different types of financial statements and what they cover.

Adjustments required for accruals, prepayments, bad debts, etc.

Types of accounts:

Preparing final accounts e.g. for sole-traders, partnerships or limited companies.

Principles and conventions:

Understanding accounting rules and principles.

Understanding the concepts and conventions of consistency, materiality and full disclosure.

LO3 Perform bank reconciliations to ensure company and bank records are correct

Bank reconciliation:

What is meant by bank reconciliation and why is it required? How is this achieved? Why is this necessary?

Who would be interested in the outcome of a reconciliation?

The process of reconciliation:

Ensuring that all entries relating to a particular period are correctly entered in the ledger system to support the preparation of the profit and loss account and balance sheet.

Using tools and techniques to check the general ledger accounts and balances against liquid holdings and cash reserves.

Differences:

Identify differences between the balance in the accounting book and in the bank statement.

Identifying variances through a bank reconciliation.

Ensuring the same entry for every debit and credit entry, and that the balance for each account is calculated and entered correctly.

LO4 Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts

Control accounts:

What are they?

How and why are they used?

How do they support effective financial management?

Suspense accounts:

How do they differ from control accounts?

Why are they required?

Reconciling these accounts:

Why is reconciliation required?

How is this conducted?

The role of debtors and creditors accounts.

Learning Outcomes and Assessment Criteria

Pass	Merit	Distinction
LO1 Record business transactions using double entry book-keeping, and be able to extract a trial balance		D1 Apply trial balance figures to show which statement of financial accounts they will end up in.
<p>P1 Apply the double entry book-keeping system of debits and credits. Record sales and purchases transactions in a general ledger.</p> <p>P2 Produce a trial balance applying the use of the balance off rule to complete the ledger.</p>	<p>M1 Analyse transactions to show the progression from a previous trial balance to the next one using double entry book-keeping.</p>	
LO2 Prepare final accounts for sole-traders, partnerships and limited companies in accordance with appropriate principles, conventions and standards		D2 Compare the essential features of each financial account statement to analyse the differences between them in terms purpose, structure and content.
<p>P3 Prepare final accounts from given trial balance.</p> <p>P4 Produce final accounts for a range of examples that include sole-traders, partnerships and limited companies.</p>	<p>M2 Make adjustments to balances of sum accounts for example, accruals, depreciation and prepayments before preparing the final accounts.</p>	
LO3 Perform bank reconciliations to ensure company and bank records are correct		D3 Prepare accurate bank reconciliations that apply appropriate tools and techniques to check general accounts and balance sheets.
<p>P5 Apply the bank reconciliation process to prepare a number of bank reconciliations.</p>	<p>M3 Apply the reconciliation process demonstrating the use of deposit in transit, outstanding checks and Not Sufficient Funds (NSF) check.</p>	

Pass	Merit	Distinction
LO4 Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts		
P6 Explain the process taken to reconcile control accounts and clear suspense accounts using given account examples.	M4 Demonstrate understanding of the different types of accounts and how and why they are reconciled.	D4 Produce accurate accounts that have been reconciled applying the appropriate methods.

Recommended Resources

Textbooks

ATRILL, P. and McLANEY, E. (2012) *Accounting and Finance for Non-Accounting Specialists*. 8th Ed. Harlow: Pearson.

DYSON, J. R. (2010) *Accounting for Non-Accounting Students*. 8th Ed. London: Prentice Hall.

GLAUTIER, M. (2010) *Accounting Theory and Practice*. Harlow: Prentice Hall.

LOUGHRAN, M. (2011) *Financial Accounting for Dummies*. New Jersey: Wiley Publishing.

MCLANEY, E. and ATRILL, P. (2012) *Accounting: An introduction*. 6th Ed Harlow: Pearson.

Journals

Journal of Accounting, Auditing and Finance

Journal of Business Finance and Accounting

International Journal of Managerial and Financial Accounting

Links

This unit links to the following related units:

Unit 5: Management Accounting

Unit 13: Financial Reporting

Unit 14: Advanced Management Accounting

Unit 15: Financial Management

Unit: Managing and Running a Small Business